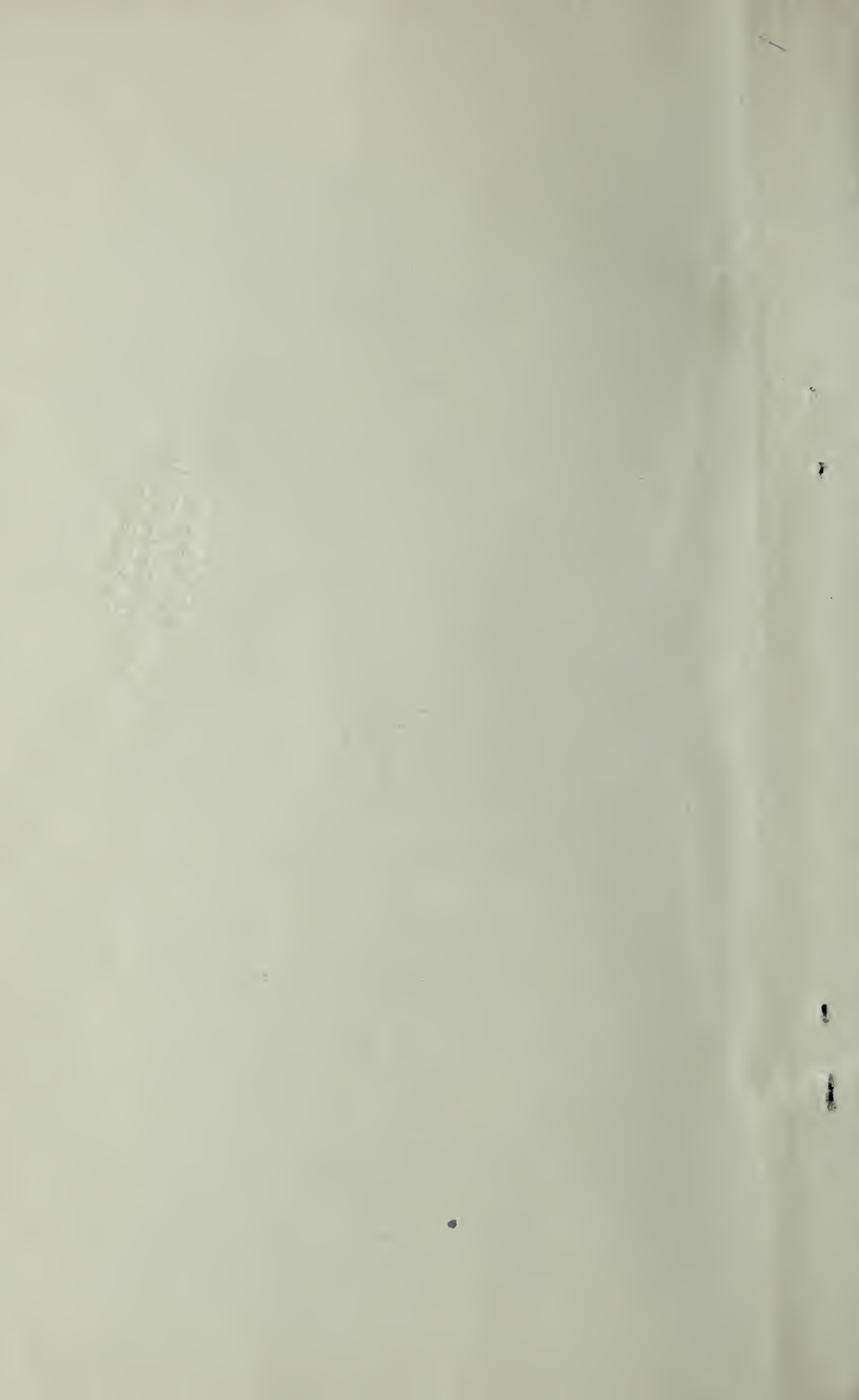


Address
on
Transportation As A Factor
In Business
to the
National Association of
Credit Men
Twenty-sixth Annual Convention

At San Francisco, June 17, 1921

by
Wm. Sproule
President, Southern Pacific Company



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NATIONAL ASSOCIATION OF CREDIT MEN

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Address by

WM. SPROULE, President, Southern Pacific Company

"Transportation as a Factor in Business" is the subject you have been good enough to suggest as the topic of this address. I prefer to say that transportation is the foundation of business, for without it there could be only local barter.

No business can be conducted without reference to transportation. Even the home industry, using home-made machinery and working up home products, must figure against the same manufactured product or one competing with it entering that same home market by means of transportation from other and perhaps very distant and diverse points of manufacture.

So everyone in business has before him in some way the transportation question and is to some extent a critic of the agencies of transportation. Hence, the mind of the Nation has for some time been directed to the importance of the business of transportation as a factor in every man's business, until now there stand in the public spotlight the Railroads of the United States on the one hand, and the United States Shipping Board on the other hand, as the great public agencies for transportation that affect the welfare of the public to the greatest extent.

In so far as I may use figures in discussing the subject, will state them in round numbers for your convenience.

In these times the transportation agencies may be said to be on the way toward convalescing after a burning and exhausting war fever, when the calm deliberation that belongs to time of peace had to give way overnight to the emergencies of a war for which we had made no preparations, and into which the railroads were flung to win the war.

These transportation agencies now find themselves very much in the same position as the birds and beasts which, in a state

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of nature, oftentimes attack the individual among them who is sick, not as a means of curing the sick one, but of killing it. Thus the railroads are passing through a period of attack with little power of resistance, and these attacks are because of an ailment which those very agencies of transportation did not bring upon themselves, and could in nowise avoid. They are the victims of a condition they did not create.

While the United States Shipping Board has been losing a million dollars a day (according to a late statement by Admiral Benson) because it has a large fleet of vessels built by the Government at very high prices, while ocean rates are drifting low and the cost of operating the ships is at or near the highest cost on record, the railroads are unable to maintain their earning power because of their operating costs having been set up as a war measure to extremes previously unheard of and from which there is as yet prospect of but slight reduction.

The United States Shipping Board can sell the ships and so get rid of their future losses. The railroads cannot get out, and the Government itself could not get rid of the losses even if it owned the railroads; which brings us to the point that it is inevitable that the railroad situation must be cared for in order that the railroads may pass from their period of sickness into wholesome health and strength.

Transportation, and particularly railroad transportation, is such a large factor in business that it is important to everyone that the railroads should be on a sound and healthy working basis in order that business may have the benefit of prompt carriage, with despatch and safety.

What is the malady and its progress and what remains to be done to restore those transportation agencies to satisfactory vigor?

The malady began on January 1, 1917, when the Adamson Law took effect on American railroads, placing their costs for wages on an arbitrary and artificial basis of eight hours a day for calculating the pay of enginemen and trainmen. By this one step the labor costs for operation of the railroads were increased in 1917 by \$271,000,000, and this includes only those railroads that had a gross earning of a million dollars or more in the year, usually known as Class 1 roads.

The next step was a year later when on January 1, 1918, the Government took over the railroads as a war measure, and in

that year 1918, the labor costs for railroad operations were increased by \$874,000,000.

The next step was in 1919 when increased wages again increased the labor costs by \$229,000,000 for that year.

The next step was in 1920, a short time before the railroads were turned back to their owners, when the wages were again increased, and this time by the sum of \$855,000,000.

Thus the increases alone in labor costs within the four years ended January 31st, 1920, reach the prodigious sum of \$2,230,000,000 above 1916. This increase is almost the same amount the railroads paid for all of their operating expenses in 1916.

Comparing again 1916 with 1920, the cost of wages, fuel and other expenses rose so that in 1920 the total increase in operating expenses was \$3,411,000,000, while the revenues taken into the box office in 1920 increased but \$2,574,000,000, leaving the railroads for the year nearly \$837,000,000 to the bad. To state it again, the total sales of transportation in 1920 increased over 1916 but \$2,574,000,000 to pay an increased bill for the year of \$3,411,000,000. So the railroads were \$837,000,000 worse off in operating expenses alone at the end than in the beginning.

But their taxes ran on, and in taxes they had to pay \$141,000,000 in 1920 in excess of 1916. So the roads were in fact \$978,000,000 worse off at the end than in the beginning, and \$978,000,000 is not very far from one billion dollars.

What was the result of all this? The railroads earned in 1920 not quite 72 per cent more than in 1916, but their operating expenses were nearly 142 per cent more, with the result that the net operating income in 1920 which could be applied to interest or any other corporate purposes of the railroads, was only \$62,000,000, a decline of 94 per cent.

The pitiful feature of this period is that these railroads received in labor less than 8 per cent more hours of service in 1920 than in 1916, although they paid for the service in wages 152 per cent more in 1920, and the total expense of rendering the service was 142 per cent more.

At the same time, the total transportation service, as expressed in train miles (that is, trains moved one mile), was actually less at the end of the period than before it, namely, was eighteen and one-half million train miles less, or expressed in percentages, one and one-half per cent less train miles were run in

1920 than in 1916, and train miles express in a general way for this purpose the service rendered to the public.

With this reduced train service, however, the railroads carried a greater tonnage of freight and a greater number of passengers in 1920 than in any previous year, and chiefly because the actual operation of the roads was turned back to the railroad companies on March 1, 1920, although the wage costs were and are withheld from the control of the companies, being vested in the United States Railroad Labor Board by the Transportation Act of 1920. And so the wage costs remained up because the wage scales were beyond the control of management, but operating efficiency, which was within the control of the management, improved.

I have said that in 1920 the railroads carried more freight and more passengers than in 1916 or in any other year in the history of our country. This is a fact not to be forgotten—and why?

You will remember that in 1917 when we went into the war the railroads in the Eastern states gradually got into a condition of blockade. The blockade gradually backed up to include considerable territory west of Chicago and the Mississippi River. From this it was argued that the railroads had broken down. This was not true. The break-down was not upon the part of the railroads. What occurred was that the warehouses, factories, docks and ships in Eastern states were unable to care for the business consigned to them. When the sidings of the factories and warehouses, and when the shipping docks became filled with freight, and ships could not take it fast enough they found themselves unable to handle any more freight, and so cars by the thousand—and soon by the tens of thousands—could not be unloaded because the consignees could not take the goods and there was no place to unload the cars.

This was in 1917. That blockade had its origin in a system of priorities by which department heads in charge of Government work gave orders that their particular business was to be given preference in transportation upon the basis of priority orders. These orders could have only one practical effect, which was to block the channels of transportation until the whole business got into a tangle of confusion and congestion. Hence, the blockade, which was not by any act of the railroads. Now comes the point, namely:

Nobody has heard of any blockade in 1920, and yet in all traffic essentials the same and with the same railroad mileage, the business carried by the railroads in 1920, figured in tons carried one mile, was 449 billions as against 430 billions in 1917, or 19 billion tons more in 1920 than in 1917.

By similar measurement, passengers carried one mile, were 46 billions in 1920 as compared with 39 billions in 1917.

The railroads could have carried the 1917 tonnage in an orderly manner, if they had been permitted to do so, as they have in fact carried it in 1920. It was not a break-down of the roads. It was a congestion in commercial facilities and a natural break-down of an ill-advised scheme of priorities.

The result was the Government deemed it well to take the roads over and operate them commencing January 1, 1918, as a war measure, and as a war measure gave all these increases in rates of pay and changes in working conditions which have brought the railroads to their present plight.

All this was done without taking steps to increase the railroad rates to meet the increased costs of operation, because the Government was standing the difference, until finally the drain upon Government itself became so great that the rates had to be raised. Unfortunately, the only increases which gave any promise of adequacy have been baffled by the fact that the business of the country was rapidly on the decline about the same time the increased rates took effect.

Just as in 1917 it was lightly alleged that the railroads had broken down, so now it is readily alleged that the increase in railroad rates is responsible for the stagnation of business. Because transportation is so important a factor in business it would be a serious charge, if it were true, that the railroad rates had produced the present stagnation in business. But it is not true.

On the contrary, the railroad rates were not raised in time to enable the railroads to move the commerce of the country in its active period when the business of the country at large could easily absorb the increase. The fact is that the rates were raised and business declined at about the same time, but one had nothing to do with the other as a related matter.

In proof of the suggestion, let me call your attention to the water rates. The rates by water have been on the decline. Yet private owners are laying up their ships. The United States

Shipping Board ships are laid up by the score because business is stagnant. The cause is found in the sheer inability of business men to continue their business on a war basis or to resume business as yet on a peace basis. That is the reason business has halted.

Yet the call of the day is that railroads reduce their rates because business is bad. This call for reduction comes from all sources and on all important commodities and from all sections of the country. I venture the opinion that if all the railroads of this country were, by some edict, to reduce their rates one-half on every kind of traffic everywhere, there would be no appreciable increase in the volume of business moved, but the railroads would be prostrate in one common disaster that would shake the Nation and call all credits into question.

I have said that the railroads of today are the victims of a condition they did not create. The ailment from which the railroads are suffering is not of their own making, but out of the situation in which they find themselves the railroads can find the way, if only they have the support of the public, and that support needs to be constructive and co-operative.

One trouble in this country is that we never co-ordinate our efforts. This is true in every field of our activities as a nation. This is particularly true of the transportation business, and from this the railroads are now suffering.

With respect to the railroads then, the Transportation Act of 1920 now in effect is the first serious effort of the Federal Government to co-ordinate its activities in a constructive way with reference to the railroads. It provides co-ordination between the Interstate Commerce Commission and the United States Labor Board; provides means for co-ordination as to the activities of the Parcels Post and of the Express Traffic, to the end that the public may be well served by each; it endeavors to co-ordinate the revenues of the carriers between the so-called weak roads and the so-called strong roads upon a basis which remains academic because instead of earning $5\frac{1}{2}$ per cent the roads are earning less than half.

Yet there is no co-ordination as between the railroads whose rates are controlled by the Government, and the United States Shipping Board, whose rates are also within control through another, but unrelated, agency of the Government.

Within the States rates are controlled by each of those states and, of course, so are the taxes the railroads have to pay, but the State Highways built by the state, and largely out of the taxes paid by the railroads, remain for the most part unregulated as to the users of those state highways.

Thus, the railroad, dedicated to public use, is regulated and taxed while the state highway, also dedicated to public use by the state itself, is used free or for a nominal fee by carriers of freight and passenger and express traffic competing with the railroads who have themselves been taxed to build those very highways.

The railroads do not complain of the competition over these highways, but they have a right to complain of the unequal and unfair competition from users of these highways who contribute largely to their depreciation and to increased cost of maintenance of the highways competing with the railroads without paying anything but a nominal fee for that use. We can all take for granted the use of these highways under proper regulation. There can be no complaint as to that. The complaint runs against unfair competition, in that the rail carriers who contribute so much out of their revenues to pay for these highways should not be required to face a competition which as to rates and taxes remains unregulated, with the further prospect that the rail carriers must again be taxed for the reconstruction and greater upkeep of these same highways because of this greater use.

When the railroads ask for rates out of which to pay these increased expenses they are assailed as trying something that is against the public interest. For that reason alone it is to the public interest that the unfairness of this competition should be recognized and be given the same general supervision and regulation of charges as the railroads. There can be no unfairness in that.

In like manner as to the Panama Canal. Recently Mr. Kruttschnitt, Chairman of the Executive Committee and Board of Directors of the Southern Pacific Company, gave testimony before a Senate Committee in Washington,* which, if it were possible, should be read by every business man in this country, because it is filled with facts, is comprehensive in statement and is a masterly review of the present railroad situation. In it he urged, for example, that waterways and highways built and maintained at public expense be made to carry themselves by imposing a fair charge on those who use them for hire so that this charge, when

*Committee on Interstate Commerce, U. S. Senate, May 11 to 16, 1921.

added to the license fees collected from those who use the highways merely for pleasure purposes, will furnish in a reasonable way a sum which will pay interest on the investment and pay the cost of upkeep. His point was that the traffic over the highway created and maintained by the public, when carried for profit should pay its fair share of the interest on cost and of the upkeep of the highway facility used, whether that highway be land or water.

This simple and clear suggestion has been perverted into a proposal that speaking for the railroads, as in that session he was, the railroads would have these means of transportation stifled, so that competition might be killed off and the railroads increase their charges and their traffic at the expense of the other agencies of transportation.

But Mr. Kruttschnitt said nothing of the sort and the railroads propose nothing of that kind. What we have a right to complain about is the lack of co-ordination, as between these various transportation agencies, in the regulation of them by the State and Federal Governments. We do not urge against competition. We urge in favor of fair competition by which the public interest shall be recognized as not confined to regulation of the railroads, but shall include equally sane and impartial regulation of the other agencies of transportation with which the railroads have to compete.

The railroads must run until exhaustion. If they run with vigor and in a wholesome way the public is well served; as they run feebly or toward starvation the public is badly served. It is conceded to be to the public interest to see to it that if possible the railroads function effectively.

Ships, however, can tie up in any port at any time, as may suit them best, if it prove undesirable to continue in the traffic. Motor buses and motor trucks can lay up if the weather or the business does not suit them. But the railroads must run. Hence the greater unfairness of keeping the railroads under strict regulation, while their competitors are left free from such regulation.

Even now there is a strong movement on foot for free tolls through the Panama Canal. This means again that by taxation of the railroads and of the general public those who use the Canal are to be relieved of a charge, which no one holds to be unreasonable in itself. Is it any wonder that the Middle West States ask why they should pay taxes in order that the users of

the Panama Canal may not have to pay for that use, or in order that the Canal users may compete more effectively with the users of the railroads. They see that railroad rates will have to be raised on the tonnage they ship by rail, if enough of the rest of the tonnage is diverted to the Canal.

With railroads compelled to operate on a high basis of cost, does it appear unseemly that those same railroads should ask for some correlation of governmental policies as between the railroads and the waterways which will remove injustice and make for better service at moderate rates by all the transportation agencies, whether rail or water?

Further, I believe you will concede it proper that the railroads should urge that as in the nature of things transportation by water is cheaper than rail, because open waterways cost nothing to maintain, the railroads should be permitted to meet that competition free from rigid interpretation, provided they do carry the competitive business at rates not below the reasonable cost of transporting it, and on a basis that does not discriminate unfairly or unreasonably against other traffic, but which does recognize the controlling force of the water competition on the rates obtainable.

This will cost the Interior States nothing but it will yield some sustenance to the carriers and gives vitality to competition. Such competition is bound to be active under any reasonable and supervisory jurisdiction by Government over all the rates, whether by rail or by water, or by routes that combine rail and water. In this way the business natural to each route will find its channel, while at the same time Government regulation, equally administered, with due relation to the differences in the modes of carriage, should prevent abuses and promote business.

Transportation is so large a factor in your business that it really becomes a factor in your activities, and so with your co-operation and the support of the men of business generally, the constructive policies of Government will be continued and extended so as to give us fair opportunity in meeting the conditions necessary to the successful conduct of the transportation business. Holding down the arms of one agency while leaving other and competitive agencies free, or yielding to some of these agencies considerate treatment and indulgent policies, while other agencies are held under restrictive regulation combined with artificial restraint upon proper economy in their expenditures is hardly fair

in any sense. The inequality tends to be disheartening. It makes more difficult a situation which might be relieved by granting to the regulated carrier a wider field for initiative in the improvement of its revenues through making its rates more flexible, and by reducing its expenses, seeing that the law of supply and demand applies to human relationship in commercial affairs as well as to articles of commerce.

Finally, I have heard murmurs of one question in your mind, namely, will railroad rates be reduced?

The answer is, they cannot be reduced materially until the railroads have the revenue necessary to sustain them by increased earnings from the transportation of freight and passengers and mail and express, on the one hand, and by reduced costs of operation on the other hand.

The reductions recently promised in our labor costs by the United States Railroad Labor Board amount to less than half of the very last advance in wages given in 1920 before the railroads were turned back to the corporations, as already referred to, and are but 18 per cent of the total advances in wages throughout the war period.

So far, the railroads have not been able to arrange by negotiation with their men for any reduction in wages. Yet the railroads have reduced many freight rates. The unfortunate feature of it is that every reduction in freight rates is attacked from the viewpoint that reduction has not been made on other commodities in which other interests are concerned, each reduction serving only to whet the public appetite for further reductions, and so engender more criticism.

Until there is a realignment of costs so that the railroad income will be sufficient to maintain its operations and to provide for the demands of the public, little reduction in rates is likely, and Government itself could not give such reductions under existing conditions if it owned the railroads, unless by taxing the people for the deficits.

It follows that we hear now and then the insinuating call for Government ownership as the solvent of the present troubles of the railroads, but let me tell you that under equal conditions of responsibility, under equal conditions of accounting, under equal regulation equally administered, private operation has nothing to fear from any experiment in Government operation. The experi-

ment has been tried. Should it be tried again, it will meet the same fate at the hands of the public.

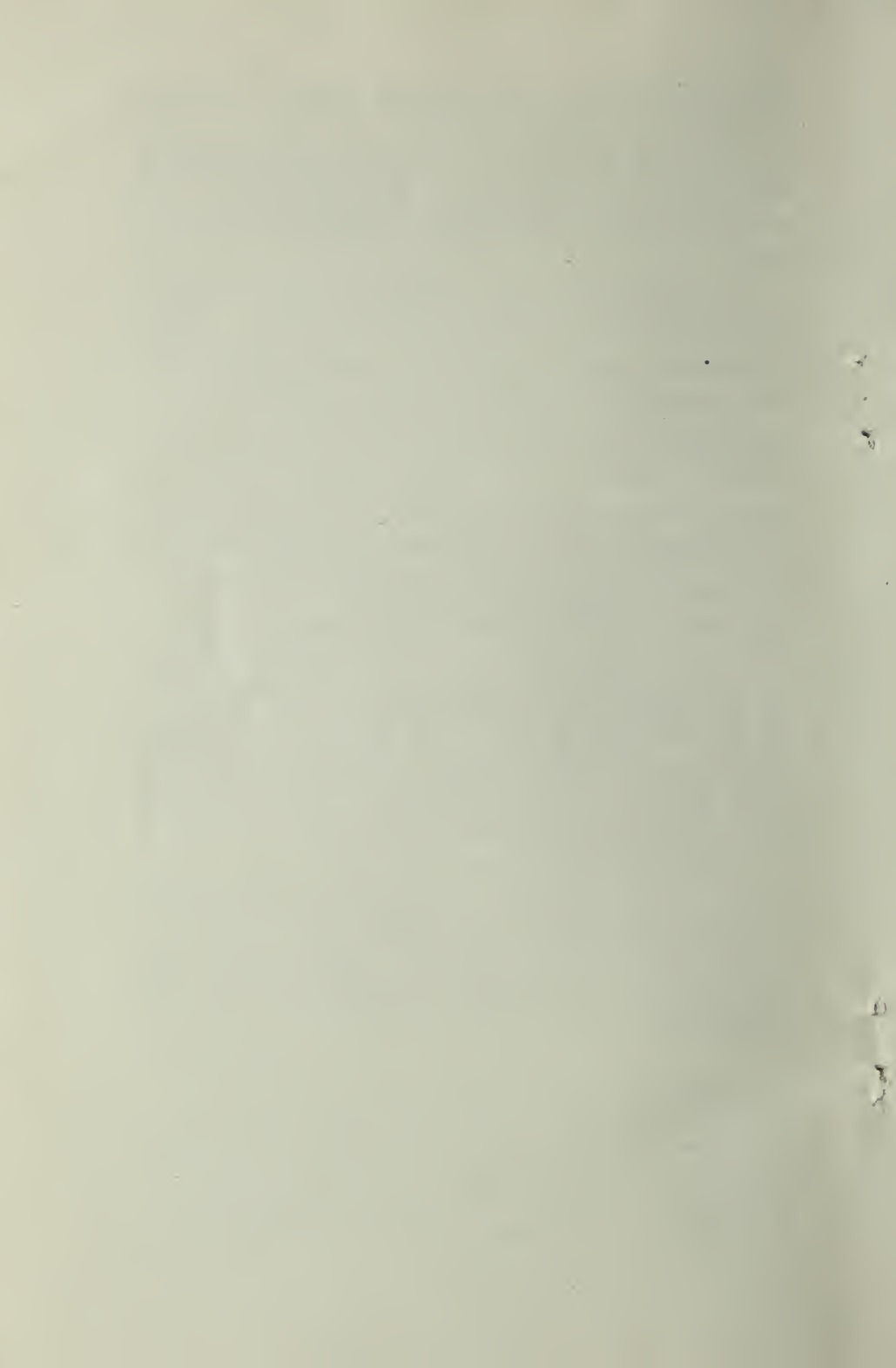
All this means that railroad men are alive to their responsibilities, from the Directors down to the youngest member of the official staff of each railroad, and with your constructive help the present situation will be righted and prosperity for all will ensue.

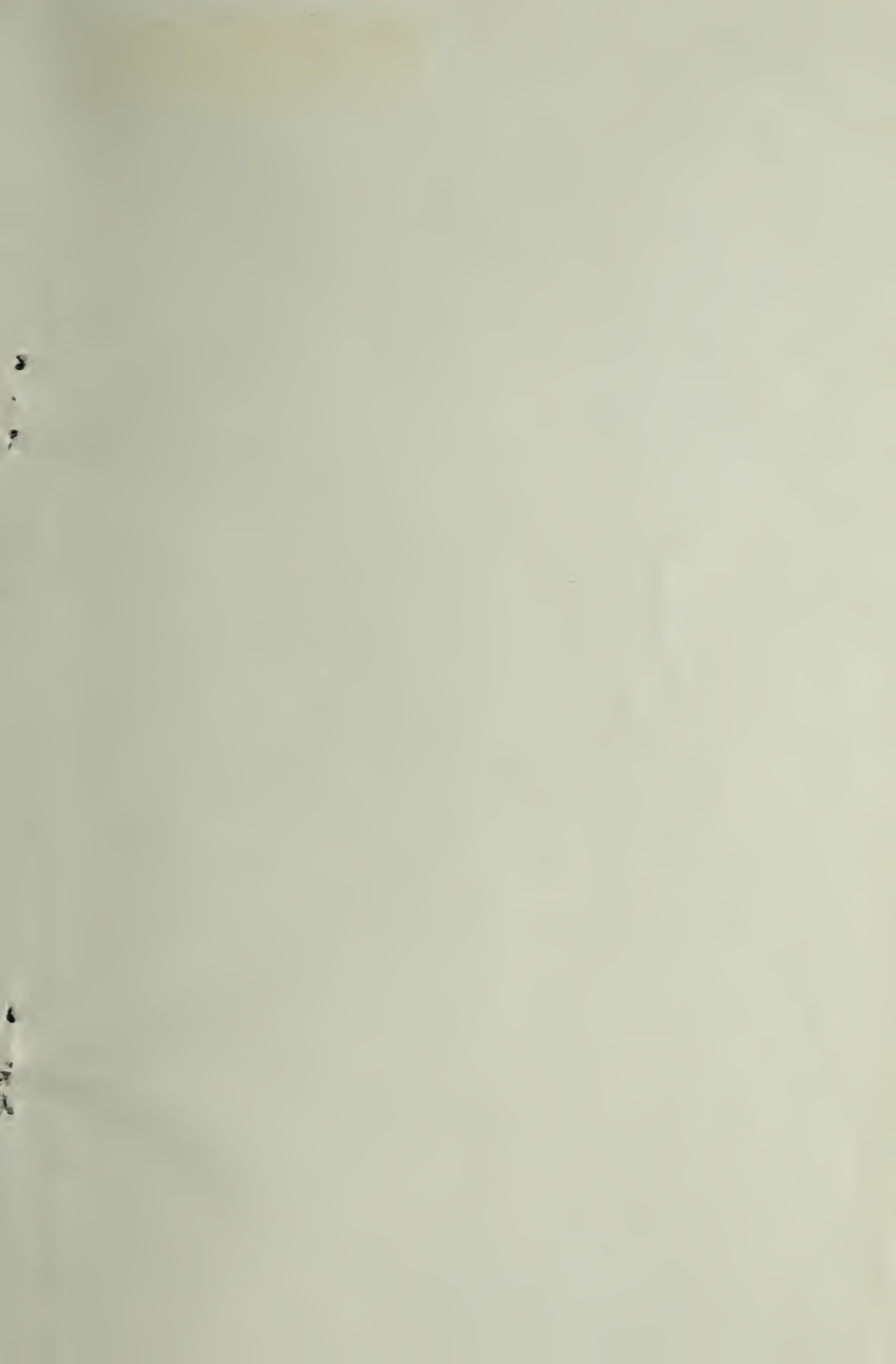
The Transportation Act of 1920 was the first constructive piece of legislation enacted by Congress to give a helping hand to the railroads in the public interest. It guarantees the railroads nothing; it is in essence a mere expression of governmental good-will; but it is a fair and conscientious start.

The work has not stopped. Senator Cummins and the Committees, the Interstate Commerce Commission, the Railroad Labor Board, the President and his Cabinet, are all concerned in the subject, and I believe the business men of the Nation, including the transportation men as an important part of that business, all have steadfast faith that out of the counsels in Washington will come further constructive and helpful results.

I take the liberty of suggesting that though Congress be deliberate, it is better even for the railroads that the deliberations be broad and painstaking rather than that we should have hasty and ill-considered action. Deliberation is the path of safety, if only we endure through the necessary interval. Let us all hope that the interval will not be prolonged. That the case is universally known to be both weighty and urgent is fair reason for believing that it will be dealt with in the common interest as quickly as wise counsels warrant.

In the meantime let me ask for your positive and constructive support, for as men of business you know that if this Nation is to go forward the railroads cannot go backward, but must make progress. As credit men accustomed to measure earnings, assets and solvency you know that they can make progress only on a paying basis.







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